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### GATT: IMPLICATIONS OF THE URUGUAY ROUND FOR AGRICULTURE

After seven years of international trade negotiations, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was finalised in Geneva on the 15 December 1993. The outcome is a complex set of new understandings and agreements which will govern global trade in the future.

This article provides a summary of the expected impacts on Australian agriculture.

The GATT, a set of rules and disciplines in international trade, aims to provide collective protection for all countries, and in particular small and medium sized countries. The establishment of the World Trade Organisation (WTO) will provide a dispute settlement process and ensure that these countries are sufficiently protected against unilateral action by the major economic powers.

New international agreements have been agreed upon to cover a wide range of areas. This incorporates the rapidly expanding trade areas of services, such as banking and telecommunications, and intellectual property like patents and copyrights. Also, agreement was reached on a large tariff cutting package (33% on average), particularly in the industrial sector. Furthermore, for the first time, agriculture and textiles are to be fully integrated under GATT.

The treaty is scheduled to come into effect during 1995, with many of its key provisions to be phased in over six years. The effects of GATT will not be felt right away. Nevertheless, the OECD estimates that the outcomes on agricultural and industrial products alone will provide a boost to the global economy of \$A418 billion by 2002. Also, the GATT secretariat estimated that world merchandise trade would be about \$A1,120 billion higher by 2005 than if trade continued at pre-Uruguay Round levels. This will all depend on the exact way in which individual countries implement the agreement.

### THE AUSTRALIAN ECONOMY

For the Australian economy, the Uruguay Round of agreements provides major trading opportunities. Being a middle-ranking trading country and wanting an effective multilateral trading system, Australia placed much importance on participation in and successful conclusion of the Uruguay Round. The Industry Commission has estimated that the long-term effects of the round will eventually be an annual increase in Australia's exports of over \$A5 billion and an increase in Australia's GDP of around \$A3.7 billion per year. Overall, all sectors of the Australian economy stand to benefit, especially agriculture.

### GATT'S IMPACT ON AGRICULTURE

In the agricultural package, tariff equivalents of border measures, domestic subsidies and export subsidies are to be reduced. Minimum access levels have also been set where imports have previously been small. This should result in better access for agricultural exports. The market outlook should improve as a result of significant reductions in the export industry subsidy and

domestic support policies which have distorted international markets for agricultural exports in recent decades. Finally, the trading environment will be significantly freer and fairer but still remain extremely competitive.

**COMPETITIVE SUPPORT**

Domestic support measures which distort trade will be cut by 20 per cent for agriculture as a whole. This aims to decrease policy induced over-production which distorts world agricultural markets. However, a range of assistance measures that will have a minimal effect on trade will not be subject to reduction. Such measures include disaster relief, research, disease control and infrastructure.

**EXPORT SUBSIDIES**

Countries are required to reduce the value of direct export subsidies to 36 per cent below the 1986-90 base period with a reduction in the quantity of subsidised exports by 21 per cent. These cuts in export subsidies, which are to occur over six years, will relieve a major source of downward pressure on international prices.

**BORDER PROTECTION**

The market access provisions include an average cut in all agricultural tariffs of 36 per cent from their 1986-88 base level, over the six year implementation period, with the minimum cut being 15 per cent. Importantly, all existing non-tariff barriers, such as quantitative restrictions, will be converted to tariff equivalents. All tariffs are to be bound which means they cannot be raised without appealing to GATT or without compensation being paid to exporting countries. In a developing country's situation the corresponding cuts are 24 per cent and 10 per cent respectively, with an implementation period of 10 years. For the least developed countries no tariff cut is required. Under the Agricultural Agreement, Australia must meet the three commitments. Australia has already met the required reductions of domestic support with relatively low levels already existing. The main area where export subsidy commitments are required is for dairy products, with reductions occurring over the implementation period. Regarding market access, the 1988 and 1991 tariff cuts meet the necessary reductions on agricultural tariffs for nearly all products. Quotas on imports of cheese and unmanufactured tobacco are to be replaced by tariff-based arrangements. For all but a few products, no further tariff cuts are required beyond those previously announced.

The new Agricultural Agreement resulting from the Uruguay Round has significant implications for Australian and world agricultural commodities. The estimated impacts of the Round on world prices are shown in table 1. Most of these figures are relatively modest, except for dairy products. With the implementation of the agreement taking place over six years, the full effects will not be realised until well into the next decade.

As indicated in table 2, Australian agriculture should benefit from the Uruguay Round with the gains estimated to be modest over the long term. The benefits to Australian agriculture from the world price increases will be improved further by greater domestic production in response to the higher prices.

**TABLE 1. INCREASES IN WORLD PRICES RESULTING FROM THE IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENT**  
(per cent)

Beef (foot and mouth disease free)
Beef (foot and mouth disease affected)

Pork	7
Sheep meat	3
Poultry meat	2
Butter	4
Cheese	20
Milk powders	16
Wheat	8
Corn	6
Other course grains	5
Rice	8
Soybeans	1
Other oilseeds	6
Cotton	2
Sugar	1

Source: Andrews, N., Roberts, I. and Hester, S.

**TABLE 2. INCREASES IN ANNUAL VALUE OF AUSTRALIAN PRODUCTION AND EXPORTS(a)**

	Increase in volume (%)	Increase in value (\$m)
<b>Production</b>		
Beef	3	340
Sheep meat	(b)	10
Dairy products	1	320
Wheat	5	340
Coarse grains	1	70
Rice	3	15
Sugar	(b)	5
<b>Total</b>		<b>1,110</b>
<b>Exports</b>		
Beef	7	330
Sheep meat	(b)	(b)
Dairy products	10	210
Wheat	7	320
Coarse grains	3	50
Rice	5	30
Sugar	(b)	10
<b>Total</b>		<b>950</b>

(a) The changes in the value of the Australian production and exports were estimated by applying the percentage change in world prices as a result of the Uruguay Round and the percentage change in the volume of production and exports as estimated from the model to the actual average value of Australian production and exports over the period 1988-89 to 1992-93. (b) Less than 0.5 per cent in absolute value.

Source: Andrews, N., Roberts, I. and Hester, S.

## MEAT

Access was the critical issue for beef within the Uruguay Round. For the Australian economy there are two principal outcomes. The first is an undertaking given by the European Union (EU) to continue to observe the Andriessen Assurance. This means the EU has maintained its agreement to refrain from exporting subsidised beef to key Asian and Pacific markets, which are of major importance to Australian beef exporters. The second main outcome is that there will no longer be a meat Import Law in the United States (US) for beef. This will be replaced by a tariff quota which is set significantly above recent access levels. Furthermore, increased access to beef markets in Korea and Japan will benefit the beef trade. The overall outlook for beef is positive and provides greater opportunity for Australia in accessing export markets.

## GRAIN

Grain growers will benefit from the agreement, with improvements in world economic growth and expanded trade. Considerable reductions will occur in EU export subsidy programs for wheat.

Also, the market distorting effects of the US Export Enhancement Program (EEP) will be reduced, so the US will export less subsidised wheat in terms of volume and value. The key outcome in the grain area is the permanent opening up of the Korean and Japanese rice markets. Also, there will be improved access for wheat and barley to Japan and Korea. However, the extent to which Australia will benefit will depend on how the US and EU might change their support arrangements within the framework of the agreement.

## **DAIRY**

The key result for the dairy industry will be the reduction in export subsidies. Both the US and EU will be cutting sales of subsidised skim milk powder while the EU will also cut subsidised cheese. There will be access into the US, EU and Asian markets with quotas being increased and tariffs being reduced. This will allow for a more predictable environment for Australia to trade in. However, while this appears good for Australia, there needs to be restructuring of the industry's market support system. Under present arrangements, Australian exports are classified as subsidies under the terms of the agreement and the volume of subsidised exports will have to be reduced for Australia to comply with the limits on volumes of subsidised exports.

## **SUGAR**

The main benefit for Australian sugar will be increased demand arising from greater access opportunities for processed products. There will also be some benefit from tariff reduction in Japan and Korea and reductions in EU export subsidies.

## **WOOL**

The Uruguay Round of GATT will significantly benefit Australian wool growers. There will be greater access to wool importing countries such as the US, India and China due to reductions in barriers and the phase-out of the Multi-Fibre Agreement. The Australian wool industry will also benefit from the liberalisation of trade in textiles and clothing, although this is not part of the Agricultural Agreement. Indirectly, improved grain and beef prices could cause farmers to produce more of these products and less wool, and decreased wool production should lead to increased wool prices.

## **REVIEW**

The Uruguay Round has delivered a fundamental change to world trade, particularly to agriculture. There is considerable opportunity for Australia and the rest of the world for the benefits to be realised. However, these benefits will not occur overnight as the implementation will be staged over six years. The outcome will not be fully realised until well into the next decade. The actual impact of the Round will depend on the exact way in which individual countries implement the agreement. It will be important for Australian rural industries to think forward as trade will be fairer and freer, but very competitive.

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